HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Quebec Region Highlights

CANADA MORTGAGE AND HOUSING CORPORATION

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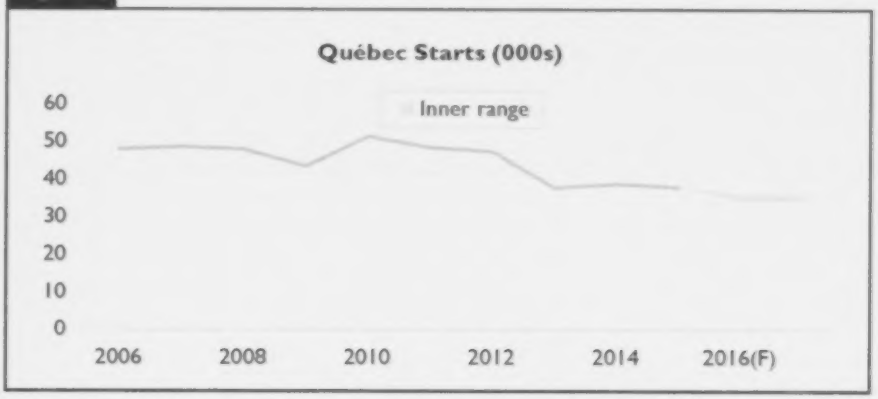
Housing Market Forecast

Figure 1



Source: CMHC, (F): Forecast

Figure 2

Source: CREA, (F): Forecasts by CMHC

The forecasts and historical data included in this document reflect information available as of April 29, 20016.

Overview

A gradual acceleration of Quebec's economic growth will provide some stimulus to housing demand in 2016 and 2017. As a result, the province's resale markets will continue to tighten and prices will remain sustained. Meanwhile, the effects of population aging will provide impetus to residential construction, in particular to the apartment market segment.

In the next two years, economic growth will stem from consumer spending and net exports. Meanwhile, private investment and public expenditure growth will be limited by the higher relative value of the US dollar and by balanced budget objectives respectively. Thus, Quebec GDP growth will increase from 1.2 per cent in 2015 to 1.4 per cent this year and pick up to 1.7 per cent in 2017. The impact on labour markets will be felt more substantially in 2017. As a result, employment will grow at a rate of 0.6 per cent this year and of 0.9 per cent in 2017.

The moderately growing job market and the relative weakening of labour markets in parts of western Canada will help retain some workers in the province and possibly attract others back. Moreover, with the help of rising immigration targets, total net migration in 2016 will reach 35,000 this year and 38,000 in 2017. Such levels will have a stimulative impact on demand in Quebec's rental markets especially.

In Detail

Single Starts

It is unlikely that the moderate employment growth and the tightening of the resale market will have a significant impact on demand for new single-detached homes in the forecast horizon. Both demand and market share in this market segment will continue their downward trends as demand and supply continue to shift toward apartments. Starts will be situated within the 9,500 and 9,900 levels in 2016 and within the 9,600 and 10,000 levels next year.

Multiple Unit Starts

While condominium starts continue to be held back by relatively high levels of supply, renewed activity in the retirement home segment and in the purpose built rental market in some areas of the province will sustain multi-family starts in both 2016 and 2017. Starts in this segment will lie within a range of 24,900 to 26,100 units this year. The forecast range for 2017 is similar and includes lower bound of 24,500 starts and upper bound of 26,100 units.

Resales

In the next two years, sales of existing houses should be fuelled by employment growth. In 2016, sales recorded by Centris® should lie within a range of between 75,000 and 80,000 transactions. Next year, the forecast range will move up slightly (76,000 to 82,000 transactions).

Prices

Despite relatively high supply levels in certain market segments, the gradual tightening of resale markets will sustain prices during the forecast horizon. In this context, the average resale price will lie within the $278,000 and $285,000 band in 2016 and between the $283,000 and $290,000 marks next year.

Regional Overview

Housing starts in the Montréal census metropolitan area (CMA) should range between 16,000 and 18,000 units this year. The new home market will once again be supported by the construction of many rental apartment projects. On the existing home market, demand will be on the rise in 2016, and sales registered through the Centris® system will increase, reaching between 38,500 and 48,500 units. With many new units being added to the rental housing stock and demand staying relatively modest, the vacancy rate in the Montréal CMA will stay fairly high this year (4.3 per cent).

In 2016 and 2017, the economic and demographic environment will be relatively stable in the Québec census metropolitan area (CMA), such that housing demand will remain comparable to the level observed in 2015. After a very strong year in 2015, housing starts will fall rather significantly, reaching between 3,250 and 3,850 units in 2016 and between 2,850 and 3,400 in 2017. The resale market will post small gains over the next two years, as Centris® sales will range between 6,600 and 7,000 units this year and then between 6,800 and 7,200 next year. The rental market, for its part, will see the vacancy rate increase, rising from 4.0 per cent in 2015 to 5.0 per cent in 2016 and then to 5.5 per cent in 2017.

In the Gatineau CMA, the new home market will post renewed growth in 2016 and 2017, but activity levels will remain below the historical average. Resale market conditions will tighten further, with the market moving closer to balanced territory in 2017. The rental housing vacancy rate will dip to 5.5 per cent in 2016 and then to 5.0 per cent in 2017. Economic and demographic conditions will continue to support housing demand.

In the Sherbrooke CMA, housing starts are forecastl to stabilize at a lower level in 2016 and 2017 as demand recedes slightly and builders direct buyers to existing inventories of new homes. Building on recent gains in employment,

Note to readers

In an effort to align itself with the various needs of those seeking information about the housing market, CMHC's Market Analysis Centre has undertaken a complete review of its products and services. As a part of this review, the CMHC's *Housing Market Outlook* publication will be undergoing a series of modifications. The general objective is to provide a range of possible outcomes that, in a context of economic and financial uncertainty, will better help users in their decision-making process.

As a first step in this ongoing process, the present edition incorporates forecast ranges for housing variables as well as an expanded discussion on the risks to the forecast. A more detailed description of the forecast range methodology is provided at the end of the publication.

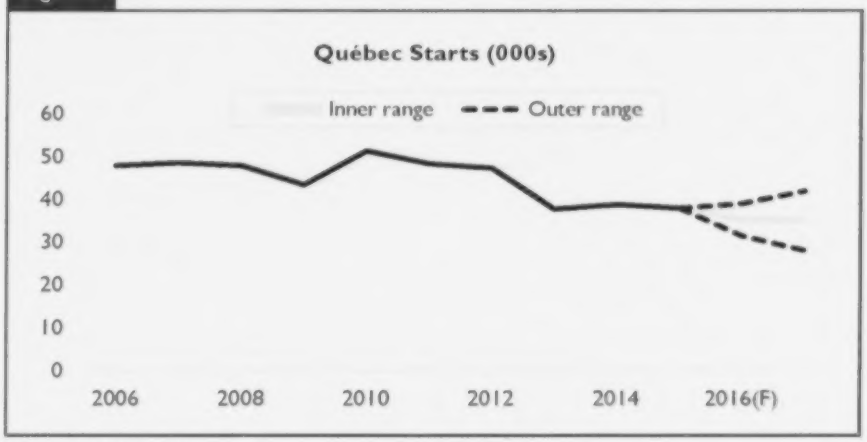
Centris® sales of existing homes are expected to increase over the next two years; however, the resale market will continue to favour buyers. Rental apartment vacancy rates, although high by historical standards, will remain stable in both 2016 and 2017 as both demand and supply moderate at a similar pace. Economic and demographic fundamentals will support a stable housing market through the forecast horizon.

Risks to the forecast

While the probability of significant shifts in starts of single detached homes remains relatively low, there are greater risks associated with the supply of multi-family units, namely of apartments. Despite clear signals of high inventory levels in relation to demand, there is renewed interest in the promotion and construction of mid to high-end rental apartments. This is explained by several factors, among which the relative popularity of new buildings among renters and retirees who are considering downsizing. Already in 2015, the Montréal and Québec CMAs recorded sharp rises in the starts of such structures. There is a risk that this pace will continue throughout the forecast horizon. On the other hand, the current market signals together with uncertainty regarding future demand may prompt suppliers to reduce significantly the pace of such starts in the coming years. These scenarios warrant the addition of alternate, wider, ranges for starts. In 2016, multi-unit starts could surpass the 28,000 mark or descend below the 23,000 level. In 2017 multi starts could lie within 20,000 and 30,000 units.

Risks related to home prices are also noteworthy. In its latest spring update, CMHC's *Housing Market Assessment (HMA)*, an analytical framework designed to identify

Figure 3



Source: CMHC, (F): Forecast

Figure 4

Source: QFREB, (F): Forecasts by CMHC

Figure 5

Source: QFREB, (F): Forecasts by CMHC

problematic conditions in the housing market, signaled significant evidence of overvaluation in the housing markets of Montréal and of Québec. According to the HMA, this assessment stems from the fact that the fundamental economic and demographic factors in these markets have not kept pace with that of prices. Currently, the resale markets of Montréal and Québec are classified as balanced to buyers. Should the gap between prices and fundamentals increase, an event such as a further pick-up in supply (as a result of possible sustained apartment supply) could drive prices down somewhat. On the other hand, in the event of more pronounced market tightening, price growth could, in fact accelerate. Taking these scenarios into account yields a wider range for prices which includes an interval of between $267,000 and $292,000 in 2016 and between $265,000 and $305,000 next year.

Mortgage rates are expected to rise moderately from current levels in 2017

Mortgage rates are expected to stay near current levels until the end of 2016, supporting housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to gradually start rising from current levels in the first half of 2017. This expected profile for mortgage rates is in line with the Bank of Canada's view of the economy returning to its full capacity by the end of 2017, according to its April 2016 Monetary Policy Report.

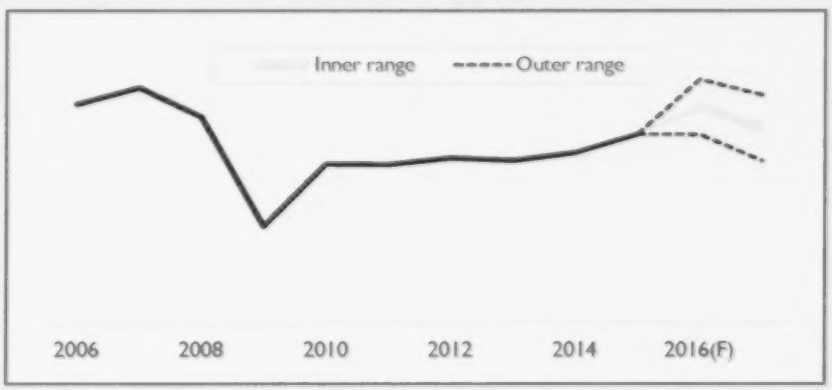
According to CMHC's base case scenario, the five-year mortgage rate is expected to be within the 4.4 to 5.0 per cent range in 2016 and within the 4.7 to 5.3 per cent range in 2017.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary Québec Spring 2016							
	2013	2014	2015	2016(F)		2017(F)	
				(L)	(H)	(L)	(H)
New Home Market							
Starts:							
Single-Detached	13,144	11,227	9,698	9,500	9,900	9,600	10,000
Multiples	24,614	27,583	28,228	24,900	26,100	24,500	26,100
Starts - Total	37,758	38,810	37,926	34,400	36,000	34,100	36,100
Resale Market							
Centris® Sales	71,194	70,622	74,143	75,000	80,000	76,000	82,000
Centris® Average Price($)	267,623	271,178	275,208	278,000	285,000	283,000	290,000
Economic Overview							
Mortgage Rate(5 year)(%)	5.24	4.88	4.67	4.40	5.00	4.70	5.30

	2013	2014	2015	2016(F)	2017(F)
Rental Market					
October Vacancy Rate (%)	2.9	3.6	4.1	4.5	4.9
Two-bedroom Average Rent (October)($)	727	737	756	769	786
Economic Overview					
Population	8,174,083	8,237,304	8,284,656	8,349,656	8,414,656
Annual Employment Level	4,060,800	4,059,700	4,097,000	4,120,200	4,158,600
Net Migration	35,540	35,932	31,212	35,000	38,000
Average Weekly Earnings ($)	794	814	830	850	867

QFREB by Centris®: The Centris® system contains all the listings of Québec real estate board.

Rental Market: Privately initiated rental apartment structures of three units and over. Historical and forecast values are an aggregate roll-up of the CMA historical data and forecasts from each province.

The forecasts (F) included in this document are based on information available as of 29th April 2016. (L)=Low end of Range (H)=High end of range.

The low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is due to rounding and volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, Centris®, CMHC Forecast (2016-2017).

Québec Region Economic and Housing Indicators

		Labour Market			Housing Market				
		Emp. Growth (%)	Unemp. Rate (%)	Average Weekly Earnings ($)	Total Starts	Single-Detached Starts	Multiple Starts	Centris® Sales	Centris® Average Price ($)
Gatineau	Q1 2016	-0.7	7.4	963	325	28	297	835	242,339
	Q1 2015	-0.8	8.5	950	171	41	130	737	232,859
	Change	0.1	-1.1	1.4%	90.1	-31.7	128.5	13.3	4.1
Montréal	Q1 2016	0.5	8.8	862	2,791	307	2,484	10,601	336,512
	Q1 2015	1.3	8.0	832	2,148	317	1,831	9,645	328,488
	Change	-0.8	0.8	3.6%	29.9	-3.2	35.7	9.9	2.4
Québec	Q1 2016	-0.5	5.6	845	555	109	446	1,974	256,820
	Q1 2015	-2.3	5.8	837	858	121	737	1,943	258,882
	Change	1.8	-0.2	1.1%	-35.3	-9.9	-39.5	1.6	-0.8
Sherbrooke	Q1 2016	4.4	7.6	807	360	30	330	496	214,960
	Q1 2015	1.9	7.8	787	233	29	204	449	218,972
	Change	2.5	-0.2	2.5%	54.5	3.4	61.8	10.5	-1.8
Province of Québec	Q1 2016	0.5	8.3	843	5,932	1,233	4,699	20,308	273,750
	Q1 2015	0.6	8.1	814	4,474	1,010	3,464	18,812	267,546
	Change	-0.1	0.2	3.7%	32.6	22.1	35.7	8.0	2.3
Canada	Q1 2016	0.7	7.6	937	38,175	11,819	26,356	114,117	498,260
	Q1 2015	0.6	7.2	909	35,175	10,266	24,909	100,629	428,580
	Change	0.1	0.4	3.1%	8.5	15.1	5.8	13.4	16.3

Changes to the Employment Growth and Unemployment Rate represent the absolute difference between current rates and the rates for the same period in the previous year. Average Weekly Earnings is the 3 month moving average of the last month in the quarter.

QFREB by Centris®. The Centris® system contains all the listings of Quebec real estate board.

n/a: Not Available

Source: CMHC (Starts and Completions Survey). Statistics Canada. QFREB by Centris®. Source for Canada resale housing data is the Canadian Real Estate Board(CREA).

Québec Region Housing Forecast - New Construction

	Housing Starts	2015	2016(F)		2017(F)	
			(L)	(H)	(L)	(H)
Gatineau	Single-Detached	422	375	425	400	450
	Multiples	1,162	1,375	1,475	1,450	1,550
	Starts - Total	1,584	1,750	1,900	1,850	2,000
Montréal	Single-Detached	2,402	2,000	2,600	2,000	2,600
	Multiples	16,342	14,000	15,400	13,200	15,600
	Starts - Total	18,744	16,000	18,000	15,200	18,200
Québec	Single-Detached	826	675	825	650	800
	Multiples	4,616	2,575	3,025	2,200	2,600
	Starts - Total	5,442	3,250	3,850	2,850	3,400
Sherbrooke	Single-Detached	305	260	290	275	325
	Multiples	1,062	840	910	850	950
	Starts - Total	1,367	1,100	1,200	1,125	1,275

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Source: CMHC (Starts and Completions Survey and Market Absorption Survey). CMHC Forecast (2016-2017).

Québec Region Housing Forecast - Resale Market						
		2015	2016(F)		2017(F)	
			(L)	(H)	(L)	(H)
Gatineau	Centris® Sales	3,528	3,750	3,850	3,850	3,950
	Centris® Average Price($)	244,300	245,500	250,400	249,700	256,200
Montréal	Centris® Sales	37,901	38,500	40,500	39,000	42,000
	Centris® Average Price($)	337,261	343,000	348,000	351,000	361,000
Québec	Centris® Sales	6,622	6,600	7,000	6,800	7,200
	Centris® Average Price($)	265,198	256,000	270,000	256,000	270,000
Sherbrooke	Centris® Sales	1,659	1,725	1,825	1,750	1,950
	Centris® Average Price($)	244,849	224,000	240,000	224,000	248,000

The forecasts (F) included in this document are based on information available as of 29th April 2016.

(L)=Low end of Range (H)=High end of range.

Source: Centris®, CMHC Forecast (2016-2017).

Québec Region Housing Forecast - Rental Market				
		2015	**2016(F)**	**2017(F)**
Gatineau	October Vacancy Rate (%)	5.9	5.5	5.0
	Two-bedroom Average Rent (October)($)	751	755	760
Montréal	October Vacancy Rate (%)	4.0	4.3	4.7
	Two-bedroom Average Rent (October)($)	760	775	795
Québec	October Vacancy Rate (%)	4.0	5.0	5.5
	Two-bedroom Average Rent (October)($)	788	790	790
Sherbrooke	October Vacancy Rate (%)	5.8	5.8	5.8
	Two-bedroom Average Rent (October)($)	608	625	635

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 29th April 2016.

Source: CMHC (Rental Market Survey), CMHC Forecast (2016-2017).

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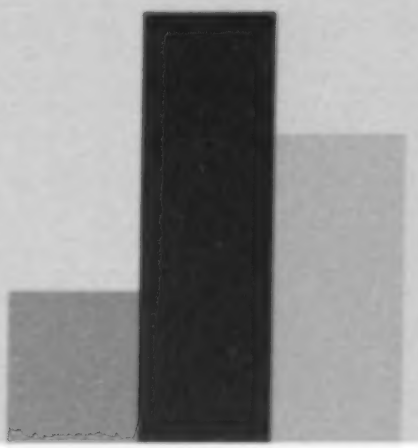

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